

## Message Text

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72

ACTION ARA-10

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FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC 3061

INFO AMEMBASSY PORT AU PRINCE

C O N F I D E N T I A L SANTO DOMINGO 1105

E.O. 11652: GDS

TAGS: ECON, EFIN, DR

SUBJECT: GODR MEASURES TO MANAGE WINDFALL SUGAR EARNINGS

REF: (A) SD 0948; (B) SD A-23, 3-10-75

1. THE FOLLOWING INFORMATION ON THE GODR'S NEW ECONOMIC MEASURES (SEE REFTEL A) HAS BEEN OBTAINED PRIMARILY FROM EDUARDO TEJERA, DEPUTY MANAGER OF THE CENTRAL BANK.

2. TEJERA STATES THAT, PRIOR TO PRESIDENT BALAGUER'S ANNOUNCEMENT OF THE NEW ECONOMIC MEASURES FEB. 17, CENTRAL BANK GOVERNOR FERNANDEZ MADE STRONG RECOMMENDATIONS TO PRESIDENT ON HUSBANDING FOREIGN EXCHANGE

EARNINGS AND STERILIZING FUNDS INTERNALLY WITHOUT SUGGESTING SPECIFIC MAGNITUDES.

3. ENEMIES OF FERNANDEZ, SUCH AS FINANCE SECRETARY CARLOS SELIMAN AND CEA DIRECTOR FERNANDO ALVAREZ BOGAERT (WHO IS ALSO VICE PRESIDENT OF THE GOVERNING REFORMISTA PARTY), WERE NOT SO RELUCTANT IN MENTIONING SPECIFIC FIGURES. CONSEQUENTLY, PRESIDENT BALAGUER, IN HIS INDEPENDENCE DAY SPEECH, ANNOUNCED, AND THEN DECREED, AN \$800 MILLION CEILING ON FOREIGN EXCHANGE AVAILABILITY FOR 1975. TEJERA  
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CONFIRMED EMBASSY IMPRESSION THAT FIGURE IS TOO HIGH IF IT IS ONLY FOR IMPORTATION OF GOODS AND SERVICES, AND TOO LOW IF IT INCLUDES DEBT-SERVICING.

4. IN ITS FIRST MEETING SINCE THE PRESIDENT ANNOUNCED THE NEW ECONOMIC MEASURES, THE MONETARY BOARD FOCUSED ON THE \$800-MILLION CEILING AND AGREED THAT SOME WAY WOULD HAVE TO BE FOUND TO GET AROUND IT SINCE THE PRESIDENTIAL DECREE REQUIRES THAT DEBT-SERVICING BE INCLUDED IN THIS FIGURE. ACCORDING TO TEJERA, SELIMAN HAD TO ADMIT TO THE FULL MONETARY BOARD THAT HE HAD ADVISED THE PRESIDENT ON THE FIGURES AHR HELPED DRAFT THE DECREE WITHOUT CONSULTING EITHER THE MONETARY BOARD OR THE CENYCAL BANK.

5. FOREIGN EXCHANGE USED LAST YEAR AMOUNTED TO \$1,050 MILLION. DR COULD PERHAPS GET BY WITH A LITTLE LESS THIS YEAR EXCEPT SO MUCH HAS BEEN OR IS BEING ROLLED OVER FROM LAST YEAR. IN ADDITION TO SOME PETROLEUM IMPORTS COSTS BEING CARRIED FORWARD, \$71 MILLION IN FOREIGN EXCHANGE MUST BE USED IN 1975 TO REPAY INESPRES IMPORT OF GRAINS LAST YEAR TO SUBSIDIZE FOOD COSTS. LETTERS OF CREDIT EXTENDED TOWARD END OF LAST YEAR ARE BEING ROLLED OVER, BUT THE SAME CANNOT BE DONE AT THE END OF 1975 ACCORDING TO THE NEW PRESIDENTIAL DECREE. MOREOVER, CONSIDERABLE FOREIGN EXCHANGE HAD ALREADY BEEN MADE AVAILABLE IN FIRST TWO MONTHS OF 1975 BEFORE FEB. 27 SPEECH

TEJERA ESTIMATES THAT ALL OF FOREGOING TOTAL \$400 MILLION OR MORE IN FOREIGN EXCHANGE ALREADY COMMITTED FOR 1975.

6. OTHER MISTAKES IN THE PRESIDENT'S SPEECH ARE AS FOLLOWS: THE ANNOUNCED ANTICIPATED BALANCE OF PAYMENTS SURPLUS FOR 1975 OF \$101 MILLION WAS A CENTRAL BANK ESTIMATE IF NO NEW MEASURES WERE TAKEN, BUT OF COURSE THE PRESIDENT ANNOUNCED NEW MEASURES TO CONSERVE FOREIGN EXCHANGE WHICH MAY LEAD TO A B/P SURPLUS OF \$350-400 MILLION. A SECOND SLIP WAS IN NOT STERILIZING SPECIAL ACCOUNTS WHICH SUGAR PRODUCERS WOULD BE FORCED TO ESTABLISH IN COMMERCIAL BANKS. THIS OVERSIGHT WILL PROBABLY BE CORRECTED BY IMPOSING A 100 PERCENT RESERVE REQUIREMENT FOR THESE ACCOUNTS.

7. TEJERA STATES THAT, WHEN PRESIDENT FULLY REALIZES HIS FINANCE SECRETARY DID NOT COMPLETELY KNOW WHAT HE WAS DOING, THE CENTRAL BANK GOVERNOR WILL COME OUT LOOKING MUCH BETTER.

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8. TEJERA INSISTS IT IS WRONG FOR PEOPLE TO SPEAK OF A "BONANZA" IN SUGAR EXPORT EARNINGS. INSTEAD OF THE AVERAGE SALES PRICE OF 43 CENTS PER LB. WHICH THE WORLD BANK TEAM VISITING HERE RECENTLY WAS USING, TEJERA CLAIMS THAT THE 80 PERCENT OF TOTAL EXPECTED EXPORTS OF 1.1 MILLION SHORT TONS THUS FAR WOULD GO AT AN AVERAGE OF 32.5 CENTS PER LB., FOR TOTAL EARNINGS OF \$572 MILLION. CENTRAL BANK IS CONSERVATIVELY ESTIMATING THAT FULL AMOUNT WILL BE SOLD AT AVERAGE OF 30 CENTS PER LB., FOR TOTAL OF \$660 MILLION. (EVEN AT \$660 MILLION, FIGURE WOULD BE APPROXIMATELY DOUBLE LAST YEAR'S SUGAR EARNINGS.)

9. TEJERA CHARACTERIZED THE NEW MEASURES AS NOT RPT NOT BEING SO MUCH ANTI-INFLATIONARY AS BEING MEASURES TO TRY TO KEEP INFLATION

FROM BECOMING WORSE.

10. THE ONLY PRICE INDEX IN THE COUNTRY, THE SANTO DOMINGO CONSUMER PRICE INDEX, WAS THE BASIS, ACCORDING TO TEJERA, FOR STATEMENT IN PRESIDENT'S SPEECH THAT INFLATIONARY RATE HAS ALREADY SLOWED. GODR IS IN PROCESS OF ESTABLISHING PRICE INDEX FOR OTHER CITIES AND NATIONWIDE WHICH WILL SOON GIVE BETTER READINGM.

11. PRESIDENT'S PROPOSAL TO MAKE FINANCE SECRETARY SELIMAN RATHER THAN CENTRAL BANK GOVERNOR FERNANDEZ CHAIRMAN OF MONETARY BOARD WAS SOMEWHAT DOWNPLAYED BY TEJERA, WHO SAID LAST TIME CHAIRMAN VOTED TO BREAK TIE-VOTE WAS IN 1964. TEJERA VOLUNTEERED COMMENT THAT ONE HAD TO ADMIT FRANKLY CENTRAL BANK HAD BUILT QUITE AN EMPIRE AND HE SUPPOSED IT WAS ONLY NATURAL FOR OTHER OFFICIALS TO RESIST IT.

12. COMMENT: MAKING ALLOWANCES FOR FACT TEJERA IS TOP AIDE OF CENTRAL BANK GOVERNOR, IT WOULD STILL APPEAR THAT HE WAS UNUSUALLY HONEST AND FRANK IN HIS COMMENTS. FINANCE SECRETARY SELIMAN, WHO CLIMBED THE BUREAUCRATIC LADDER VIA CUSTOMS, IS CERTAINLY NO ECONOMIST AND HAS HAD NO EXPERIENCE EVEN IN BANKING. CENTRAL BANK UNDER FERNANDEZ MUST BE GIVEN MAJOR CREDIT FOR GODR POLICIES WHICH HAVE CONTRIBUTED TO FIVE-YEAR AVERAGE OF 10.4 PERCENT IN REAL ECONOMIC GROWTH BEGINNING IN LATE 1960'S. THAT HAVING BEEN SAID, HOWEVER, ONE SHOULD NOT LOSE SIGHT OF OVERALL THRUST OF NEW ECONOMIC MEASURES. WHILE PUT TOGETHER IN A LITTLE MORE SLAPDASH FASHION THAN CENTRAL BANK WOULD HAVE LIKED, THE OVERRIDING SIGNIFICANCE IS THAT VIGOROUS ACTION HAS BEEN TAKEN IN RIGHT DIRECTION.  
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13. BEFORE PRESIDENT'S ANNOUNCEMENT OF NEW MEASURES, THE PESO ON PARALLEL MARKET WAS WEAKENING, MOVING FROM \$1.10 IN DECEMBER TO \$1.16 FOR ONE US DOLLAR IN FEBRUARY. THIS TREND IS EXPECTED TO CONTINUE FOR THE NEAR-TERM. WHILE IT MAY APPEAR PARADOXICAL THAT THE PESO IS WEAKENING ON THE PARALLEL MARKET AT THE MOMENT

THE COUNTRY, FOR THE FIRST TIME IN RECENT MEMORY, IS ACQUIRING THE EQUIVALENT OF THREE MONTHS OF MERCHANDISE IMPORTS IN FOREIGN EXCHANGE HOLDINGS, THIS PHENOMENON IS EXPLAINED BY THE FOLLOWING: SUPPLY OF DOLLARS, WHILE UP WHEN 60 OR 70 THOUSAND DOMINICANS FROM US VISITED DR IN DECEMBER, IS NOW GOING DOWN BECAUSE OF RECESSION IN US. AT SAME TIME, DEMAND IS INCREASING. DOMINICANS MUST BUY MORE DOLLARS IN ORDER TO IMPORT SAME AMOUNT OF GOODS DUE TO WORLDWIDE INFLATIONARY PRESSURES. DELAYS OF CENTRAL BANK IN MAKING FOREIGN EXCHANGE ANAVAILABLE IS FORCING MORE RECOURSE TO PARALLEL MARKET. THE PRESIDENTIAL ANNOUNCEMENT THAT NO FOREIGN EXCHANGE WOULD BE MADE AVAILABLE FOR THE IMPORTATION OF AUTOMOBILES, ALCOHOLIC BEVERAGES, HOME ELECTRICAL APPLIANCES, AND PROCESSED TEXTILES WILL ACCENTUATE SPREAD BETWEEN OFFICIAL AND PARALLEL MARKETS UNLESS AND UNTIL GODR MAKES MORE FOREIGN EXCHANGE OFFICIALLY AVAILABLE. MANY IMPORTERS PREFER THE PARALLEL MARKET FOR IMPORTING AUTOMOBILES AND OTHER BIG ITEMS BECAUSE IT PERMITS

UNDER-INVOICING WHICH DRASTICALLY CUTS DUTIES. ONLY CONTINUED  
RELATIVELY HIGH SUGAR PRICES FOR SOME TIME WOULD LEAD TO A UNI-  
FICATION OF THE TWO EXCHANGE RATES.  
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## Message Attributes

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